expressed both in and out of Congress. That such was not the opinion of Mr. Aldrich himself, his scathing and bitter denunciation of the House bill seems to bear abundant witness.[4] It might be enough for purposes of argument simply to appeal on this point from the critics of the measure to Mr. Aldrich himself but that would hardly answer the purpose of historical analysis.

The Aldrich bill may be considered from two standpoints, (1) that of its theory and broad general plan on the one hand, and (2) that of its machinery and technique of construction on the other. From the first standpoint, there is no shadow of relationship or similarity between the Federal Reserve Act and the Aldrich bill. From the second, there is at many points a close resemblance. The Aldrich bill provided for a single central "reserve association" with scanty public oversight, with control vested practically wholly in the banks, and with the preponderance of power in the larger institutions which owned stock. It so arranged things as to keep this "reserve association" relatively inactive except upon special occasions of panic or disturbance. It made no direct provision for the shifting of reserves in part from existing banks to the proposed association, but it relied upon inflation due to the placing of bank notes issued by the central association in the reserves of the stockholding banks for protection in time of danger. The new act provides for twelve reserve banks, introduces the principle of local control, calls for strict government oversight, shifts reserves from present correspondent banks to the new institutions, minimizes the influence of the larger banks in directorates, and generally diffuses control instead of centralizing it. It leaves banking, as such, to be practiced by bankers; it vests the control of banking in the hands of government officers. The theory and purpose of the new act are widely different from those of the Aldrich bill. Where the Aldrich proposal veers widely away from the tendencies that have been developed during the preceding ten years of American banking discussion, the Federal Reserve Act closely follows them. Indeed, the Act of 1913 is closer to any one of half a dozen bills of former years than to the Aldrich proposal.

[4] Proceedings of American Academy of Political and Social Science, October, 1913.

The Aldrich-Vreeland Emergency Currency

By HOMER JOSEPH DODGE
Editor, The Federal Trade Information Service[1]

THE origins of everything in the world, from man himself to slang words and phrases, from vast and perfect mechanisms to manners and customs, or great eras and economic cycles, always have held a special fascination. And there has always been someone, whether it be Darwin or the Encyclopaedia Brittanica, to ferret out each firstling.

To point to the circumstances of the origin of the American currency inflation, the progress of which during the last seven years has had so profound an effect upon every branch of our national activity, is not a difficult task. Although inflation of such tremendous proportions previously had been unheard of, the stage was especially set in preparation for that event. As a preliminary to the more serious later currency inflation, the United States had innocently provided itself with a lively springboard from which to leap.

THE FORERUNNER OF INFLATION

That springboard was the Aldrich-Vreeland Act which provided a sudden

[1] I am indebted to the office of the Comptroller of the Currency for the statistics of the Aldrich-Vreeland note issues.

means for issuing hundreds of millions of dollars in emergency currency. To be sure, it was designed merely to meet temporary needs for additional currency in periods of financial stress. It was intended that this currency should never remain long outstanding, but should merely supply the nation with a currency medium during the brief period required to restore confidence following a market upheaval or similar economic disturbance of known dimensions and experienced intensity. An aggregate of $500,000,000 was provided for this purpose. That a need should develop in this generation for greater sums was undreamt.

The panic of 1907 had been a severe lesson to the American banking fraternity and to the nation as a whole. At that time clearing house certificates had been issued to the extent of $255,536,300—a great sum then—and Congress, intent on providing a preventive against a similar embarrassment, had passed the Aldrich-Vreeland Currency Act, which was approved May 30, 1908. It was regarded as an emergency implement to be supplanted by more solid legislation and, therefore, was to expire by limitation, June 30, 1914. The permanent legislation was provided, for on December 23, 1913, the Federal Reserve Act was approved. The Federal Reserve Banks were not opened, however, until November 16, 1914, so when the European War broke out the permanent system was not ready for operation.

The War was the call-bell for the beginning of the performance of worldwide inflation. The American vehicle of participation was not ready, so Congress brought back, as a curtain-raiser, the Aldrich-Vreeland Emergency Currency Act. It extended the life of the act from June 30, 1914, to June 30, 1915.

WAR DEMAND FOR MONEY

In times of stress of almost any kind, money is the first support on which mankind leans. Availability of ample supplies of money goes far toward alleviating almost any distress. The War had not yet had an opportunity to bring home the lesson that in an economic sense, goods and services, and not money, are the king pins. With the Stock Exchange closing, and banks and business houses and individuals throughout the country in a state of bewilderment over the meaning of the War, everyone wanted money quickly.

Europe instantly began unloading her railroad and industrial securities in this market. Belligerent governments began awarding contracts for war supplies. Prices began to rise, and a thousand new demands for money sprang up. This demand, coupled with a caution on the part of the banks, arising from the native timidity of capital in the presence of great material forces, doubtless would have caused serious embarrassment had it not been for the availability of the Aldrich-Vreeland emergency currency.

A curious fact attendant upon the issuance of this money bears upon the political aspect of the event. The Federal Reserve Act had been widely press-agented to the country as a great achievement of the Democratic Congress. It was a Wilson bill, one of the heralded Democratic reforms. Now the Aldrich-Vreeland Act, as its very name signifies, was the creation of an old-fashioned Republican Congress. It was popularly known that the Federal Reserve Act had been approved; that its machinery was in process of erection. The Aldrich-Vreeland Act was forgotten. Wherefore, when, in response to the demand of the hour, an emergency currency

appeared, it was popularly received as the issue of the new Federal Reserve System. It is not a matter of large importance, but rather a curiosity of financial history, that to this day many business men are under the impression that the emergency currency with which they did business in the first few months of the War was Federal Reserve currency.

At the beginning of the crucial period following the declaration of war in Europe, the general stock of currency in the United States amounted to $3,735,579,397, of which $368,210,467 was held in the Treasury as assets of the government, leaving the amount in circulation at $3,367,368,930. Of the general stock, there was in gold, $1,887,270,664; silver, $748,287,696; United States notes, $349,114,016; and national bank notes, $750,907,021.

On August 1, 1914, the stock of incomplete currency in the custody of the Comptroller of the Currency and available for issue on the security of United States bonds and other securities, was $524,864,470. The aggregate amount of government bonds on deposit to secure circulation, together with the amount of such bonds outstanding and acceptable for that purpose, aggregated $913,317,500, of which the national banks had on deposit to secure circulation, $740,796,910, to secure United States deposits, $23,047,950, and on hand unpledged, $11,950,300. Hence, only about $137,500,000 of the class of United States bonds acceptable as security for circulation were not owned by national banks. This amount, plus $11,955,300, owned but unpledged, or in round amount, $149,500,000, was the measure of the possible increase of national bank circulation on the security of United States bonds.

On August 1, 1914, the outstanding national bank circulation amounted to $750,907,020, of which $735,222,801 was secured by United States bonds, and the remainder, $15,684,220, by lawful money deposited by banks in liquidation and by those that were retiring their circulation. On September 12, 1914, the date of the first report from national banks following the beginning of the European War, the reporting banks had on deposit with the Treasurer of the United States as security for circulation, United States bonds to the amount of $736,685,850. On that date the volume of circulation issuable under the Act of 1908, that is, 125 per cent of the combined capital and surplus of the banks, amounting to $2,230,588,239, less the amount of currency issued on United States bonds, was $1,493,902,390. As a matter of fact, the authorized issues of currency under that Act, from the date of the first issue on August 4, 1914, to the date of the last issue on February 13, 1915, were but $386,444,215, or less than one-fourth of the maximum issuable. The amount authorized included $910,500 secured by state and municipal bonds deposited with the Treasurer of the United States in trust by eight national banks, all other issues being based upon securities deposited with national currency associations.

During the period of activity of issues of circulation under authority of the Act of 1908, the volume of United States bond-secured circulation was practically unchanged. The aggregate amount of outstanding national-bank circulation reached the maximum, during the period in which emergency circulation was issued, in the middle of November, 1914, namely, $1,126,039,600.

PROVISIONS FOR RETIREMENT OF ALDRICH-VREELAND CURRENCY

The law authorized the deposit of lawful money or national bank notes for the retirement of this additional or emergency currency. By reason of general conditions and the lack of demand for funds, deposits for retirement of the additional circulation began to be made as early as the middle of October, and by January 2, 1915, aggregated $238,698,460, or over 60 per cent of the total circulation authorized to be issued. Within nine months, that is, by May 1, 1915, $380,039,030 of the authorized $386,444,215 of this currency had been retired, and prior to June 30, 1915, the entire amount issued had been retired except the sum of $200,000, the amount issued to a national bank that failed and was placed in charge of a receiver.

In addition to the securities deposited, the law provided that "the banks and the assets of all banks belonging to the association (national currency), shall be jointly and severally liable to the United States for the retirement of such additional circulation."

The value of the securities deposited with the currency associations, that is, the market value of the state and miscellaneous bonds and the face value of the commercial paper and warehouse receipts, including exchanges, was, roundly stated, $907,880,000 of which $651,146,000 was in commercial paper. The net value of the securities, that is, the gross amount deposited less exchanges, exceeded the value of circulation issued by more than 30 per cent.

Under the provisions of law and the rulings of the Treasury Department, securities deposited were classified as follows:

1. State, municipal, and county bonds were accepted at 85 per cent of the market value.

2. Miscellaneous securities, including industrial bonds, and other securities, mainly city and town notes and warrants, were accepted at 75 per cent of the market value.

3. Commercial paper was accepted at 75 per cent of the face value, and—

4. Notes secured by warehouse receipts for cotton, tobacco, and naval stores at 75 per cent of the face value.

The additional circulation authorized and secured by commercial paper represented 57½ per cent of the total amount authorized; by miscellaneous securities, 28 per cent; by state, county and municipal bonds, 14 per cent; and by notes secured by warehouse receipts, one-half of one per cent.

ACTIVITY OF NATIONAL CURRENCY ASSOCIATIONS

While there were between 7,500 and 7,600 national banks in active operation during the period in question and 45 national currency associations organized, the membership of these associations was but 2,197, and of that number only 1,363 took out additional circulation. None of the banks in four currency associations, namely, Vermont, Rhode Island, northern New York, and central New York, applied for circulation. All the states of the Union were included in one or more of the currency associations excepting Maine and Wyoming. None of the national banks in nine states, namely, Maine, Vermont, Rhode Island, Delaware, South Dakota, Montana, Wyoming, Idaho and Nevada, applied for additional circulation.

Eighty per cent, or $309,308,210 of the authorized issue of $386,444,215, was for banks in the reserve city

associatións. The amount authorized for banks in the National Currency Association of the city of New York was $144,975,960; Boston, $24,944,-500; Chicago, $27,070,000; Philadelphia, $14,883,750; Minneapolis and St. Paul, $12,798,500; Dallas, $11,-337,950; Pittsburgh, $10,978,000; St. Louis, $10,836,500; Cincinnati, $9,592,-500; and San Francisco, $8,634,500.

The tax collected on this additional circulation from August, 1914, to June 30, 1915, was $2,977,066.73.

With the deposit of the requisite amount of lawful money to provide for the retirement of circulation issued under authority of the Act of May 30, 1908, and the release of the securing collateral, the duties of the national currency associations practically terminated, although the associations were held to be in existence until the date of the expiration of the act providing for their formation. The organization of the first national currency association, that of Washington, D. C., was approved July 18, 1908, and the last, the State of Vermont, December 16, 1914.

There were forty-five national currency associations organized with a membership of 2,197 banks, or 29.15 per cent of the total banks (7,538) that reported on the call of September 12, 1914. During the month of August, 1914, 30 associations made their first application for additional circulation, 6 in September, 4 in October; 1 did not report the date of its first application, and 4 associations made no application.

Forty-one associations approved for issue $385,553,905 to 1,366 member banks. The first approval was made on August 3, 1914, and the last on February 5, 1915. The first application for the retirement of circulation was approved September 23, 1914. By July 1, 1915, all of the banks to which currency was issued, with the exception of the First National Bank of Uniontown, Pa., which, upon becoming insolvent, was placed in charge of a receiver, had made the necessary deposit to retire their additional circulation.

The securities pledged with the associations aggregated $585,864,391.94, classified as follows: commercial paper, face value, $359,535,317.27, or 61.37 per cent of the total securities deposited; industrial bonds, par value, $116,069,173.36, or 19.81 per cent; state, municipal and county bonds, par value, $70,010,846.34, or 11.97 per cent; railway bonds, par value, $31,333,800, or 5.37 per cent; other securities, face value, $4,690,366.86, or 0.80 per cent, and warehouse receipts secured by cotton, tobacco, and naval stores, face value, $4,224,-888.11, or 0.72 per cent. The expenses of 41 currency associations, the members of which issued circulation, are reported at approximately $125,000. Two non-issuing associations reported combined expenses, $44.57. The other two non-issuing associations apparently incurred no expense.

DECLINE OF EMERGENCY CURRENCY AND INCREASE IN RESERVE NOTES

The Federal Reserve Banks had opened in the midst of this process, on November 16, 1914. Their machinery was unfamiliar and therefore there was no immediate substitution of the new currency for the Aldrich-Vreeland notes. Retirement of the Aldrich-Vreeland currency, however, set in early. Indeed, the date on which the greatest volume actually was outstanding was prior to the opening of the banks—October 24, 1914. This was due to retirement on the part of banks which had taken care of their emergency requirements and were

getting in shape to carry their own load. That the banking community had not abandoned the emergency currency in favor of the Federal Reserve currency is indicated by the fact that applications for the emergency currency continued to come in and the date on which the maximum approvals took place was not reached until February 13, 1915. By this time retirements of this currency had brought the amount outstanding down to $45,377,141. The period in which the greatest volume was retired was the week ending December 12, 1914, and the amount, $45,144,798.

There was no full replacement by Federal Reserve notes of the Aldrich-Vreeland notes. By January 1, 1915, a total of $238,698,483 of the Aldrich-Vreeland notes had been retired while only $16,530,000 in Federal Reserve notes were in circulation. On April 1, 1915, $372,928,594 of the emergency currency had been retired and only $43,376,000 in Federal Reserve notes were in circulation.

The two curves—one representing the retiring Aldrich-Vreeland notes and the other, the expanding Federal Reserve notes—crossed about March 1, 1915. On March 6, 1915, there were $27,905,376 in Aldrich-Vreeland notes still outstanding. On March 5, 1915, there were $29,805,000 in Federal Reserve notes in circulation.

The previous reporting date for the Aldrich-Vreeland notes was February 27, when there were $32,249,374 outstanding. Compare this with February 26, when there were $26,172,000 in Federal Reserve notes in circulation. The next subsequent reporting date was March 13, when there were $24,357,227 in Aldrich-Vreeland notes outstanding. Compare this with March 12, when $33,965,000 in Federal Reserve notes were outstanding. By June 30, when the last of the Aldrich-Vreeland notes were retired and the Act expired by limitation, there were about $83,000,000 in Federal Reserve notes in circulation.

So it will be seen that the Aldrich-Vreeland currency contracted at a much greater rate than the Federal Reserve currency was issued. This indicates how truly the Aldrich-Vreeland notes were an emergency—a panic currency. They were issued to allay panic or in anticipation of it; the Federal Reserve currency was issued in response to the actual needs of business. A further indication of these contrasting characters is furnished in the fact that applications for new emergency currency continued in substantial volume for a considerable time after the large retirements by the banks which had received supplies; this indicated that the emergency had passed. It is true that there was a heavy tax operating to force the emergency currency into retirement but this alone does not explain the situation. Had it been the tax which caused the Aldrich-Vreeland money to retire so precipitately, the untaxed Federal Reserve currency would have flowed out in greater volume. A year after the Federal Reserve Banks had been opened, the Federal Reserve notes in circulation were only $184,000,000, less by nearly $150,000,000 than the amount of Aldrich-Vreeland currency which had been outstanding a year ago.

These figures are surprising when retrospect brings them in contrast with the $2,500,000,000 in Federal Reserve notes now outstanding and the $3,250,000,000 outstanding a year ago. These figures further show how totally inadequate the maximum of $500,000,000 in Aldrich-Vreeland notes would have been had the act further

been extended and sole reliance placed upon it to provide an additional currency. To be sure, there had been retirement of other classes of currency but not in such fantastic volume as to match the issuance of Federal Reserve notes.

Economists and bankers have learned a great deal about currencies since the days of the Aldrich-Vreeland issues and some rules have been upset. The phenomenon which has caused the most profound amazement has been the persistent vitality of grotesquely inflated currencies in some countries of Europe. The German mark is famous for its depreciation, the Russian ruble, notorious. Both have lost, apparently, practically all calculable relation to metallic reserves, yet they display a lingering vitality and are accepted as being worth something, although as a matter of fact some of them are worth less than the merchandise value of the paper on which they are printed. A meal costs 100,000 rubles in Moscow, yet meals still are bought with rubles. They do circulate. The idea that the image and superscription is a talisman of some value, however much depreciated, endures in the face of accurate knowledge that the sovereignty behind these tokens practically is defunct. The idea of a legal tender has retained a momentum which, although slowed down, is yet perceptible. This fact speaks much for an innate desire on the part of the people to retain an artificial circulating medium.